

# An Empirical Research on the Relationship between Perceived Leadership Styles and Employee Satisfaction within Small and Medium Sized Enterprises (SMEs) in Vietnam

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**Abstract**— Employee satisfaction is always the key to any manager who wants to manage the business effectively. To small and medium sized enterprises (SMEs), employee satisfaction is considered as the core competency and core value of their success. There are many factors influence on the degree of employee satisfaction, leadership styles, which is perceived by employees, is one of the most important one. To conduct the study, the Ohio State Leadership studies and the Michigan Leadership Studies were used as the theoretical foundation and used survey instruments from permissions of the three sets of self-reported questionnaires, including Demographic Characteristics, Multifactor Leadership Questionnaire (MLQ) (Bass & Avolio, 1995) and Employee Satisfaction Survey (ESS) (Spector, 1985). The results of the study indicated that transactional leadership style and laissez-faire leadership style significantly and inversely predicted overall employee satisfaction. The findings of this study resulted in an addition to the body of knowledge and could serve as a foundation for future research regarding this relationship within the SMEs in Vietnam and other developing countries.

**Index Terms**— transactional leadership style, laissez-faire leadership style, employee satisfaction, perceived leadership style.

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## 1 INTRODUCTION

**F**OLLOWING the commitment to WTO in 2007, Vietnam has to open the opportunity to small and medium sized enterprises (SMEs) to take part in the free market as other business models. Since 2007, many policies and regulations have passed to support SMEs by the government. Based on statistics from Ministry of Justice, Vietnam in the past few years has experienced a robust growth of SMEs, which accounted for 97% the total number of enterprises in the country. Attaching with such growth, there are many vital roles and benefits brought by SMEs, namely as job creation, enhancing income for employees, encouraging various social resources for investment and development, poverty reduction in locals and provinces, positive effect on the growth of large enterprises, in which, including industrial supporting industry (Phan, Nguyen, Mai, & Le, 2015). As a report of the Ministry of Labor, Invalid and Social Affairs, SMEs create more than half million of new jobs; use more than 51% of the labor force and contribute to 40%

GDP. Tax and other fees' payment from SMEs to the State increased 18.4 times just after 10 years. Such contributions from SMEs distributed into social affairs and other developing programs (MOLISA, 2015).

In addition, the impact of globalization and the knowledge-based economy forces developing countries to join the world economy system, and the situation for them is much more difficult than before (Nam, 2015). The negotiation process to join Trans-Pacific Partnership (TPP) also requires businesses in Vietnam have to change and improve themselves if they do not want to withdraw the competition with foreign competitors of other members of TPP. In this context, managements of SMEs need to position themselves among competitive market map. SMEs are the most common business formations in Vietnam. They have predominated in Vietnam's economic structure. Vietnamese SMEs are diversified, flexible, efficient and hence relatively competitive. These characteristics are among the key factors that have

helped Vietnamese small and medium enterprises survive in a highly competitive and rapidly changing world economic environment. Many studies proved the important role of SMEs in the economy development of Vietnam, however, there is not any study about effective leadership model which is appropriated with Vietnamese SMEs.

The SMEs' organizational structures are different from large firms. A leader is the primary soul of any enterprise. However, the leader of Vietnam's SMEs has higher affective power than a large firm leader. Leadership has been defined as "the process of influencing the activities of an organized group toward goal achievement" (Robinson, 2006). The leader's leadership style could directly affect subordinates' working attitude, total production, and enterprises' success.

The purpose of this quantitative correlational study is to determine if a relationship exists between employees' perceptions of leader's leadership style and the employees' job satisfaction at SMEs in Vietnam in the context of Vietnam is preparing to join TPP. In addition, this study try to explain the suspicion about employee perceptions of the leader's leadership style can be used to predict employee job satisfaction among SMEs in Vietnam. The participants of this study are employees at SMEs in Vietnam. Data will be collected using three sets of questionnaires, including Demographic Characteristics, Multifactor Leadership Questionnaire (MLQ 5X), and Job Satisfaction Survey (JSS). A pilot test will be conducted in order to construct the validity and reliability of the questionnaires.

## 2 LITERATURE REVIEW

### 2.1 Review of Prior Studies

#### 2.1.1 Leadership Theories

The researchers at Ohio State focused on examining leadership from a behavioral or performance point of view. These studies sought to describe the behavior of individuals in positions of leadership and whether their leadership was effective or ineffective (Shartle, 1957). A preliminary questionnaire composed of these items was called the Leader Behavior Description Questionnaire (LBDQ) and was used by samples of military and civilian personnel to identify their supervisors' behavior. As a result of these studies, two dimensions of supervisors behavior were defined, one concerned interpersonal relations (consideration) and the other with task objectives (initiat-

ing structure). Yukl (2012) explained both behavior dimensions:

1. Consideration is identified by characteristics that included the leader being friendly, supportive, concerned, open and consultative to a subordinate.
2. Initiating Structure occurs when the leader defines and structures his or her own role, and the subordinates toward attainment of the formal goals of the group.

The Ohio State researchers found it was the collective conclusion of those involved in these studies that the most effective leaders are those who rate higher than average in both consideration and initiating structure dimensions. However, critics have pointed out that while "it is relatively easy to call certain behaviors of leaders effective once the desired outcomes have been observed, it is much more difficult to stipulate in advance the behavior of leaders that result in the desired outcomes" (Bensimon, 1993).

A second program of research on leadership behavior was conducted at the University of Michigan in the same time as the leadership studies were explored at Ohio State. The approach of the Michigan research was to examine the relationships among leader behavior, group process, and measure of group performance. Interviews and questionnaires were used to collect the information about managerial behavior. Objective measures of group productivity were used to classify managers as relatively effective or ineffective.

The research showed that three types of leadership behavior differentiate between effective and ineffective leaders. Yukl (2012) concluded that they are as follows:

1. *Task-Oriented Behavior*: Effective leaders did not waste their time and effort doing the same work as their subordinates. Instead, the more effective leaders concentrated on task-oriented functions. Furthermore, effective leaders lead subordinates in setting performance goals that were high but realistic.
2. *Relations-Oriented Behavior*: For the effective leaders, task-oriented behavior did not occur at the expense of concern for human relations. The effective leaders were also more supportive and helpful with subordinates, which included showing trust, confidence, appreciation, and being

friendly, considerate and helpful.

3. *Participative Leadership*: Effective leaders used more group supervision instead of supervising individual subordinates separately. Subordinates participated in the group meetings for decision making, improved communication, promoted cooperation, and facilitated conflict resolution. The role of leader in group meetings should be primarily to lead the discussion and keep it supportive.

### 2.1.2 Employee Satisfaction and Related Theories

Employee satisfaction is not considered an all-encompassing description of employee engagement because it has traditionally been researched at the individual level rather than the organization level. Employee satisfaction is defined as the extent to which an employee has a positive affective orientation or attitude towards their job, either in general or towards particular facets (Mostovicz, Kakabadse, & Kakabadse, 2009). Employee engagement is measured at the organizational level within an organizational environment to adequately account for organizational performance. Employee satisfaction is an individual measure and is too narrowly defined as a factor of engagement. An employee may be satisfied in his/her job and find it personally rewarding, and yet not be committed to the organization itself or prompted to be fully engaged at the organizational level. Depending on the particular situations, one may or may not be satisfied with such employment factors as management's interaction, communication, and involvement. Research suggests that employee satisfaction influences organizational commitment, yet this research does not address how an individual's performance and productivity and employee satisfaction impacts business results. Essentially, employee satisfaction does not guarantee that an employee would be motivated to perform, or is more dedicated to the organization (Joshi, Lazarova, & Liao, 2009; Schullery, 2013).

The study of employee satisfaction has been tied to the concept of subordinates' motivation. Several human motivation theories have been applied to explore employee satisfaction of subordinates and better understand the relationship between the subordinates and organization. Work motivation theories are often conceptualized in term of human needs among these human motivation theories. The greatest influence on the study of job satisfaction has come from the theory of human needs espoused by Abraham Maslow (1954) and Frederick Herzberg (1959).

### 2.1.3 Review of Studies on the relationship between Leadership Style and Employee Satisfaction

Bar-Tal (1991) studied that employee productivity and goals and motivations determine satisfaction. The study revealed that a leader's personal and environmental factors might have certain value in predicting employee behaviors due to the fact that leader behavior is one of the components of employee's environmental factors. The path-goal theory has also been used to explore the moderating effects of leadership behavior and employee satisfaction. Path-goal theory provides a series of assumptions about the leader's leadership styles that will interact with subordinates' characteristics and the work setting to affect the subordinates' motivation. Moreover, the path-goal theory offers the direction for leaders to help subordinates to accomplish their work in a satisfactory manner, such as by using behaviors to increase the rewards valued by subordinates (House & Mitchell, 1974).

Bass (1985) developed the model, which reported that transformational leadership was investigated in comparison to transactional leadership and laissez-faire as well as in relation to outcomes of leadership. The following studies will show the casual relationship among transformational leadership, transactional leadership, laissez-faire styles and employee satisfaction.

Seltzer and Bass (1990) surveyed a convenience sample of 250 employees of 85 full time managers and determined idealized influence was the only significant and positive predictor for satisfaction with leadership styles ( $p < .001$ ). The finding in this research revealed that leaders presenting idealized influence more frequently advanced employees' satisfaction with leadership style; leaders performing laissez-faire style more frequently reduced employees' satisfaction with leadership style.

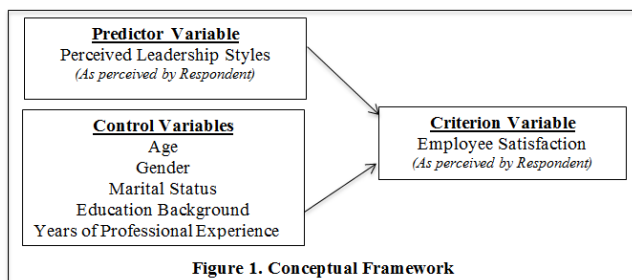
Yammarino and Bass (1990) collected the leadership and outcome data using the Multifactor Officer Questionnaire. Results showed that transformational leadership and the outcomes were strong positively related; transactional leadership and outcomes were less positively related; and laissez-faire and the outcomes were negatively related. They also indicated that there might be optimum levels of transformational leadership for each subordinate. Some subordinates may need or accept higher levels of transformational behaviors from a leader than others. From these results revealed that leadership style is strongly related with individual subordinate's effort, satisfaction and perceived leader effectiveness.

## 2.2 Conceptual Framework

Leadership is the ability to make sense of what people are doing together so that people understand and be committed to the company development. On the other hand, leadership style of management is able to affect to the employees' performance, so that inspire them to commit more and contribute more to the success of the organization. When the organization performs well, employees will trust and be willing follow that leader's direction. Indirectly, employees' satisfaction will be enhanced with the degree of trust increase. Especially to Vietnamese SMEs, the leadership styles influence much on the employees' satisfaction due to the characteristics of SMEs and the attitude of employees to the leader. With this study, the survey of employees in SMEs occurred in order to determine if a correlation exists between leadership styles and employee's satisfaction within the context of Vietnam is preparing to join TPP in short future. For the purposes of this study, the predictor variable was the leadership style, and the criterion variable was employee satisfaction.

The following research questions and their corresponding hypotheses and the conceptual framework guided this study:

- **H<sub>1a</sub>:** There is a correlation between Perceived Leadership Style and Employee Satisfaction among SMEs in Vietnam.
- **H<sub>2b</sub>:** Perceived Leadership Style can be used to predict Employee Satisfaction at SMEs in Vietnam.



## 3 RESEARCH METHODOLOGY

### 3.1 Research Instruments

The instruments of this research included three sets of questionnaires: (1) Demographic Characteristics (DC), (2) Multifactor Leadership Questionnaire (MLQ), and (3) Employee Satisfaction Survey (ESS).

#### 3.1.1 Demographic Characteristics (DC)

To understand the demographic and background information of respondents, the researcher designed five questions to gather the information from the participants. The questions included gender, age, educational background, marital status, and years of professional experience.

#### 3.1.2 Multifactor Leadership Questionnaire (MLQ)

The Multifactor Leadership Questionnaire (MLQ) was initially developed by Bass (1985) of the Center for Leadership Studies at Binghamton University. There have been several times of revisions to the MLQ since 1985; the previous models fell short of explaining a "full range" of leadership styles and behaviors, the full range model of leadership was developed to broaden the range of leadership styles and behaviors (Bass & Avolio, 2000).

The MLQ contains of 45 items, with the nine leadership dimensions. Each dimension contains four items, and the outcomes of satisfaction, extra effort and effectiveness addressed by two, three and four items individually. The leadership dimensions of transformational leadership are: (1) Idealized Influence (Attributed), (2) Idealized Influence (Behavior), (3) Inspirational Motivation, (4) Intellectual Stimulation, and (5) Individualized. The leadership dimensions of transactional leadership are: (1) Contingent Reward, (2) Management by Exception (Active), and (3) Management by Exception (Passive). In addition, the dimension of Laissez-Fair Leadership is also included. These MLQ items are evaluated on a 5-point Likert scale ranging from 0 to 4.

#### 3.1.3 Employee Satisfaction Survey (ESS)

The ESS was developed by Spector (1985), contains nine facets of employee satisfaction, as well as overall satisfaction. The original name of this survey is job satisfaction survey (JSS). However, to help respondents understand clearly and to make it be familiar with Vietnamese language, author changed a little bit on sentence's structure and context, so, the new version is called ESS. The nine facets of employee satisfaction are: (1) Pay, (2) Promotion, (3) Supervision, (4) Fringe benefits, (5) Contingent rewards, (6) Operating conditions, (7) Coworkers, (8) Nature of Work, (9) Communication. The scale includes 36 items and uses a summated rating scale format. This format is the most popular for employee satisfaction scales. The responses to the ESS items are numbered from 1 to 6; hence, a respondent is asked to circle/click one of six numbers that corresponds to his/her agreement or disagreement about each item (Strongly Disagree (1)

to Strongly Agree (6)). Each of the items of ESS is a statement that is either a positive aspect or a negative aspect of the job. An item in the positive aspect is one for which agreement indicates employee satisfaction. Before the items are combined, the scoring for the items in the negative aspect must be reversed. Consequently, people who agree with positive aspect items and disagree with negative aspect items will have high scores representing employee satisfaction. People who disagree with positive aspect items and agree with negative aspect items will have low scores representing employee dissatisfaction.

### 3.2 Data Collection Procedure

In agreement with the data collection procedures, only employees who were currently working full-time at SMEs received an invitation to complete the survey. The distribution of research surveys occurred over a period of four weeks with 3,000 SMEs employees having received the survey and 203 (N = 203) having completed the survey. The collection of the required data occurred using an anonymous self-administered internet-based survey administered through the Google Drive survey tool.

### 3.3 Data Analysis Procedure

The self-administered internet-based survey distributed by Google Drive yielded the required data for testing the research hypotheses. The export of the collected data to a statistics program enabled analysis. The participant responses received numerical values to facilitate statistical analysis. Descriptive statistics, including frequencies, means, standard deviations and percentages, were reported in order to examine the demographic data, perceived leadership style and the employee satisfaction. The .05 level of statistical significance was used to test the hypothesis in this study (Field, 2009). After that, T-test, one-way analysis of variance (ANOVA) and the Scheffe post-hoc test were used to determine whether any significant relationships existed among respondents between managers' leadership style and the employee satisfaction, respectively regarding their demographic characteristics.

Finally, Stepwise Multiple Regression Analysis was used to examine the relationships between the variables of managers' perceived leadership style (including transformational leadership style, transactional leadership styles and laissez-faire leadership style) which perceived by employees and employee satisfaction, as well as how these variables predict the level of employee satisfaction.

## 4 ANALYSIS AND FINDINGS DISCUSSION

### 4.1 Reliability Analysis

To assess if the items in the questionnaires provide accurate assessment of leadership styles (which is perceived by respondents) and employee satisfaction, the MLQ and ESS were subjected to Cronbach's Alpha Internal Consistency Reliability to delete inconsistent items that failed to obtain their intended construct. Cronbach's Alpha Coefficients were calculated, and the final results of each factor of MLQ and ESS are shown as follows:

Scale	Cronbach's Alpha	N of Items
Multifactor Leadership Questionnaire (MLQ)	.89	45
Employee Satisfaction Survey (ESS)	.77	36

Table 1. Reliability of Multifactor Leadership Questionnaire (MLQ) and Employee Satisfaction Survey (ESS)

The Cronbach's Alpha statistic facilitated the determination that each scale had internal reliability. The results ( $\alpha = .89$ ,  $\alpha = .77$ ) indicated that the entire scale of Multifactor Leadership Questionnaire (MLQ) and Employee Satisfaction Survey (ESS) were internally reliable, respectively (see table 1). This means the MLQ and ESS were well-designed measures of leadership styles (perceived by respondents) and employee satisfaction of the survey respondents. These results supported the internal consistency of the responses to the MLQ and ESS items that contributed to the generation of the constructs.

### 4.2 The Relationship among Leadership Styles (as perceived by respondents) and Employee Satisfaction

The predictor variable for this study was Perceived Leadership Styles and the criterion variable was Employee Satisfaction. The Multiple Regression Analysis enabled the determination of whether the control variables accounted for any variation in the relationship between perceived leadership styles and employee satisfaction. Table 2 contains the regression analysis of the combined control variables as they relate to employee satisfaction. The p-Value indicated that Age and Years of Professional Experience were statistically significant. While Gender, Marital Status, Education Background were not statistically significant.

Variables	Unstandardized Coefficients	Standardized Coefficients	t Statistic	p-Value

	B	Std. Error	Beta		
Age	2.132	.831	.041	1.413	.001*
Gender	-1.331	2.144	-.071	-.431	.461
Marital status	-1.415	1.013	-.092	-.515	.510
Education Background	-1.004	.841	-.101	-1.624	.637
Years of Professional Experience	4.152	.926	.311	2.727	.002*
(Constant)	52.222	4.341		17.622	.000

Note. \* Statistical significance at the .05 level ( $p < .05$ )

Table 1. Control Variables Regression Analysis by Employee Satisfaction

Additionally, Table 3 contains the regression analysis of the predictor variable as it relates to employee satisfaction. The p-Value indicated that perceived leadership style was statistically significant

Variables	Unstandardized Coefficients		Standardized Coefficients	t Statistic	p-Value
	B	Std. Error	Beta		
Perceived Leadership Style	.722	.057	.725	7.421	.000*
(Constant)	15.313	3.522		2.241	.003

Note. \* Statistical significance at the .05 level ( $p < .05$ )

Table 2. Predictor Variable Regression Analysis by Employee Satisfaction

## 5 SUMMARY AND DISCUSSION

### 5.1 Summary of Findings

With respect to the first research question and corresponding hypothesis, the researcher tested to determine whether a correlation exists between leadership style, as perceived by respondents, and their employee satisfaction. The results of the Pearson Correlation Coefficient indicated that the data were consistent with the hypothesis by determining a correlation existed between the variables. Specifically, the results indicated a strong, positive relationship ( $r = .725$ ;  $p = .000$ ) between perceived leadership style and employee satisfaction at a significance level of 0.01.

Moreover, results revealed that the three perceived leadership styles, including transformational leadership style, transactional leadership style and laissez-faire leadership style, emerged as the significant predictors of employee overall employee satisfaction at SMEs in Vietnam. Transformational leadership style significantly and positively predicted all individual

facets of employee satisfaction and overall employee satisfaction, and it appeared as the strongest single predictor among three perceived leadership styles for employee satisfaction. The transactional leadership style and laissez-faire leadership style significantly and inversely predicted overall employee satisfaction.

### 5.2 Discussion of Findings

Beyond testing the correlation between perceived leadership style and employee satisfaction, this study also try to find out the answer of the research question "Can Perceived Leadership Style be used to predict Employee Satisfaction at SMEs in Vietnam?" To come up with the answer, the stepwise multiple regression analysis was used to examine the relationships between the variables of perceived leadership styles (including three different styles) and employees satisfaction, as well as how these variables predict employees satisfaction. The results of analysis revealed that overall perceived leadership style emerged as the significant predictor of the employee satisfaction. Particularly, transformational leadership style significantly and positively predicted all respective facets of employee satisfaction and overall job satisfaction; it appeared as the strongest single predictor among the three perceived leadership styles toward employee satisfaction. The transactional leadership style and laissez-faire leadership style significantly and inversely predicted overall employee satisfaction. Therefore, the second hypothesis was supported. Thus, the answer for research question is "Employee perceptions of the leader's leadership style can be used to predict employee satisfaction at SMEs in Vietnam."

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